

Message Text

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ACTION AID-59

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FM AMEMBASSY COLOMBO
TO SECSTATE WASHDC 9991

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ADCOR

FOR NEA DUBS AND AID AA/ASIA SULLIVAN FROM THE AMBASSADOR

E.O. 11652: N/A
TAGS: EAID, PEBR, CE

SUBJ: STRATEGY FOR ASSISTANCE TO SRI LANKA

REF: STATE 073827

1. IN RESPONSE TO GSL YEARNINGS FOR MORE U.S. AID, I HAVE REVIEWED OUR ASSISTANCE POLICY IN SRI LANKA. WE ALSO HAVE JACK SULLIVAN'S CABLE URGING MORE DEVELOPMENT AID THAN THE \$26 MILLION SUGGESTED BY AID'S PROGRAM OFFICE. I CONCLUDE THAT THERE ARE POSSIBILITIES FOR INCREASING TOTAL U.S. AID TO SRI LANKA PARTICULARLY ONCE THE MAHAWELI PROJECT GETS UNDERWAY. HOWEVER, THERE ARE REAL CONSTRAINTS ON THE AMOUNT OF U.S. ASSISTANCE WHICH SRI LANKA CAN ABSORB, PARTICULARLY FOR "MAN-DATE RELATED" PROJECTS. THIS CABLE EXPLAINS THE CURRENT SITUATION.

2. THE QUEST FOR MORE U.S. AID REFLECTS SRI LANKAN ASPIRATIONS FOR RAPID PROGRESS TO CUSHION THE CONSEQUENCES OF
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ECONOMIC REFORMS, ACCELERATE ECONOMIC ACTIVITY, AND EXPAND JOB OPPORTUNITIES. THERE ARE ALSO FEELINGS THAT THE U.S. SHOULD PROVIDE EXTRAORDINARY SUPPORT TO A STRUGGLING SISTER DEMOCRACY. SRI LANKA'S UNPRECEDENTED ECONOMIC REFORMS COUPLED WITH ITS COMMITMENT TO EQUITABLE DEVELOPMENT APPEAR TO CREATE A RELATIVELY UNIQUE AND PERHAPS TRANSITORY OPPORTUNITY TO BOOST THE ECONOMY TOWARD SELF-RELIANCE.

3. HOWEVER, THE PRIMARY IMPEDIMENT TO ECONOMIC PROGRESS IN THE NEXT FEW YEARS WILL NOT BE LACK OF FOREIGN AID FOR THE TYPE OF DEVELOPMENT PROJECTS THE USG NOW SUPPORTS. THE IMF STANDBY AND EXTENDED FUND FACILITY WILL MAKE UP TO \$540 MILLION IN RELATIVELY SHORT-TERM FUNDS AVAILABLE. IN ADDITION, THE RESPONSE FROM BILATERAL DONORS TO SRI LANKA'S APPEALS HAS BEEN GOOD AND AID DISBURSEMENTS FOR 1978 ARE EXPECTED TO BE 33 PERCENT ABOVE 1977. SRI LANKA RECEIVES AID FROM 13 DAC COUNTRIES, THE UN, ADB, IBRD, SEVERAL OPEC COUNTRIES, AS WELL AS SMALL AMOUNTS FROM USSR, CHINA AND OTHER COMMUNIST NATIONS. THE CAPACITY TO EFFECTIVELY UTILIZE AID DECLINED DURING MRS. BANDARANAIKE'S REGIME AND IS ONLY SLOWLY REBUILDING SINCE THE CHANGE OF GOVERNMENT IN JULY 1977. DOMESTIC SAVINGS ARE STILL LOW. THE MANAGERIAL CAPACITY FOR DESIGNING AND CARRYING OUT DEVELOPMENT PROGRAMS REMAINS WEAK. THE MAHAWELI PROGRAM ASIDE, THERE IS MORE AID AVAILABLE AT PRESENT THAN SRI LANKA CAN ABSORB.

4. IN THIS CONTEXT, ANY SUBSTANTIAL INCREASE OF "MANDATE RELATED" U.S. PROJECT AID WOULD MEAN EITHER DISPLACING OTHER DONORS OR A FAR MORE ACTIVE ROLE FOR THE U.S. IN DESIGNING AND IMPLEMENTING THE PROGRAMS INTO WHICH THE INCREASES WOULD BE FUNNELLED. IT WOULD REQUIRE AN INCREASE OF AMERICANS IN THE AID MISSION BEYOND THE EXPANSION NOW PLANNED AND ASSIGNING AMERICANS TO MINISTRIES TO HELP DEVELOP AND CARRY OUT NEW PROGRAMS. WE BELIEVE SUCH AN ACTIVIST AID POSTURE IS NOT IN LIMITED OFFICIAL USE

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OUR POLITICAL INTERESTS. WE FEEL SRI LANKANS, WITH THEIR STRONG FEELINGS OF INDEPENDENCE IN DETERMINING DEVELOPMENT GOALS, POLICIES, AND INSTITUTIONAL STRUCTURES, WOULD NOT WELCOME SUCH AN APPROACH. AND IN THE END, IT WOULD TEND TO POSTPONE THEIR TAKING RESPONSIBILITY FOR THEIR OWN AFFAIRS.

5. OUR BEST POLICY, THEREFORE, IS TO CONTINUE TO BASE PROJECT AID LEVELS ON THE AVAILABILITY OF SOUND PROJECTS AND ON THE GROWTH OF SRI LANKAN CAPACITIES TO DESIGN AND IMPLEMENT PROGRAMS EFFECTIVELY. WE ENVISAGE ANNUAL PROJECT AID LEVELS, EXCLUSIVE OF MAHAWELI, OF ABOUT \$20 - \$25 MILLION IN THE NEXT FEW YEARS; ACTUAL DISBURSEMENTS WILL GRADUALLY CUMMULATE ANNUALLY. BEYOND PROJECT AID, THERE IS NOT LIKELY TO BE MUCH SCOPE FOR U.S. COMMODITY LENDING IN THE FUTURE. AFTER THE GSL'S UREA PLANT COMES ON STEAM IN LATE 1979, WE SEE A MAXIMUM ANNUAL NEED FOR ABOUT \$5.0 MILLION IN PHOSPHATIC FERTILIZER FROM THE U.S. OTHER COMMODITY IMPORTS ARE DIFFICULT TO JUSTIFY UNDER THE CONGRESSIONAL MANDATE AND ARE BEST LEFT TO OTHER DONORS.

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ADCOR

FOR NEA DUBS AND AID AA/ASIA SULLIVAN FROM THE AMBASSADOR

6. AS THE MAHAWELI PROGRAM DEVELOPS, THERE SHOULD BE OPPORTUNITIES FOR ABOUT \$15 MILLION IN ANNUAL AID FOR DOWNSTREAM CONSTRUCTION AND SETTLEMENT WORK. AS THE SEQUENCE AND MAGNITUDE OF OUTSIDE FINANCING OVER THE NEXT FIVE YEARS AWAITS COMPLETION OF THE DUTCH NEDECO STUDY, NO DECISION ON ADDITIVE U.S. ASSISTANCE FOR MAHAWELI CAN BE MADE NOW. THE AID MISSION WILL RESERVE UP TO \$15.0 MILLION IN ITS FY 1980 BUDGET FOR MAHAWELI, BUT THE ACTUAL AMOUNT PROGRAMMED IN FY 1980 AND FUTURE YEARS WILL DEPEND ON THE NEDECO STUDY AND SUBSEQUENT DISCUSSIONS WITH THE GSL. (NOTE: INCLUDING FUNDS BUDGETED FOR MAHAWELI, AID'S FY 1980 BUDGET IS EXPECTED TO BE ABOUT \$38 MILLION.)

7. HENCE, ASSUMING CONTINUATION OF PRESENT USG ASSISTANCE POLICIES, THE OUTLOOK IS FOR \$20-\$25 MILLION IN PROJECT AID PLUS U.S. CONTRIBUTIONS TO MAHAWELI. BECAUSE OF THE LONG-STANDING POLICIES STRESSING SUPPORT FOR THE POOR, SRI LANKA'S CAPITAL INFRASTRUCTURE HAS BEEN ALLOWED TO RUN DOWN BADLY AND IS NOW A GOOD DEAL WEAKER THAN IT USED TO BE. IF AID WERE PREPARED, AS AN EXCEPTION, TO CONSIDER ASSISTANCE TO INFRASTRUCTURE DEVELOPMENT, I WOULD WANT TO RE-EXAMINE THESE CON-

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CLUSIONS SINCE I BELIEVE THAT SUCH ASSISTANCE WOULD BE DEVELOPMENTALLY BENEFICIAL, COULD READILY BE ABSORBED, AND WOULD

NOT BE INTRUSIVE OR POLITICALLY SENSITIVE.

8. THE GSL'S DESIRE FOR MORE U.S. BILATERAL ASSISTANCE PARTLY REFLECTS THEIR LACK OF KNOWLEDGE ABOUT THE SIZE OF OUR CURRENT PROGRAM. THE U.S. IS THE MAJOR DONOR TO SRI LANKA. WE CONTRIBUTE APPROXIMATELY 25 PERCENT OF THE GSL DEVELOPMENT BUDGET AND 25 PERCENT OF TOTAL BILATERAL AND MULTILATERAL AID. IN CY 1977, U.S. AID DISBURSEMENTS, INCLUDING PL 480, WERE APPROXIMATELY THREE TIMES THE SIZE OF THE NEXT LARGEST BILATERAL DONOR (JAPAN) AND TWICE THAT OF THE WORLD BANK. SRI LANKA RECEIVES MORE ASSISTANCE PER CAPITA THAN ANY COUNTRY IN ASIA. U.S. AID HERE HAS GROWN MORE RAPIDLY THAN PUBLIC AWARENESS OF ITS ROLE. I BELIEVE THE ADVANTAGES OF THIS MILD OBSCURITY OUTWEIGHT THE DISADVANTAGES OF BECOMING A MAJOR TARGET OF SRI LANKA'S TEMPORARILY QUIESCENT LEFT.

9. AS A FINAL POINT, I WOULD LIKE TO PLEAD FOR THE REDUCTION OF MENTIONS OF SRI LANKA IN USG PRONOUNCEMENTS ON ECONOMIC DEVELOPMENT. THE CONTINUED REFERENCES TO SRI LANKA'S EXEMPLARY PROVISION OF SOCIAL SERVICES, DEMOCRATIC INSTITUTIONS, AND THE LIKE IN STATEMENTS FROM THE HIGHEST LEVELS OF THE U.S. GOVERNMENT SERVE TO BLOAT AND MAKE MORE IMMEDIATE SRI LANKAN EXPECTATIONS OF USG BILATERAL ASSISTANCE. THE CONSTRAINTS OPERATING IN BOTH WASHINGTON AND COLOMBO DESCRIBED ABOVE WILL CONTINUE UNAVIDABLY TO RESULT IN A GAP BETWEEN SRI LANKA EXPECTATIONS AND USG PERFORMANCE. WE WILL ONLY INCREASE BEWILDERMENT HERE IF WE FAIL TO REDUCE THE VOLUME AND FREQUENCY OF OUR PRAISE FOR THE SRI LANKANS. I AM NOT URGING A POLICY OF USG BENIGN NEGLECT TOWARD SRI LANKA, BUT RATHER PUBLIC DISCRETION.

WRIGGINS

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